TITLE	**Treasury Management Strategy 2021-2024**
FOR CONSIDERATION BY	The Executive on Thursday, 18 February 2021
WARD	None specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Executive Member for Finance and Housing - John Kaiser

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

Agree the treasury management procedures, limits, and objectives for 2021/22.

Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments while funding the capital programme.

RECOMMENDATION

The Executive is asked to recommend to Council to:

1) approve the Treasury Management Strategy as set out in Appendix A including the following additional appendices;

    - Prudential Indicators (Appendix B)
    - Annual Investment Strategy 2021/22 (Appendix C)
    - Minimum Revenue Provision (MRP) policy (Appendix D)

2) note the Audit Committee agreed the Treasury Management Strategy on 3 February 2021.

3) note the cumulative financial impact on the Council of its borrowing activities equates to a net credit to the general fund for the taxpayer of £13.64 per band D equivalent at end of 2021/22 and noting this credit increases to £62.86 at the end of 2023/24.

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2018 Prudential Code sets out the requirements in relation to the setting of a Treasury Management Strategy within Local Authorities. The key objectives of the Code are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to CIPFA's Prudential Code, which has been given legislative backing. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities – whether supported by government or entirely self-financed. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Using the guidance from the Prudential Code, every year the Council produce a **Treasury Management Strategy** and a **Capital Strategy.** Both strategies are closely linked and also support the Medium Term Financial Plan. The Capital Strategy is considered in a separate report.

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years.

Further reports are produced during the year: a mid-year monitoring and a year-end outturn.

A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury management activity.

Treasury Management Strategy

The Executive are asked to recommend the Treasury Management Strategy as set out in Appendix A including the following appendices;

- Prudential Indicators (Appendix B)

  These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice.

  These are summarised below and consist of limits and performance indicators for categories of Affordability and Prudence.

Prudential Indicators	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Affordability			
Limits			
Authorised Limit	729	852	905
Operational Boundary	677	789	838
Performance Indicators			
Gross external borrowing – General Fund + HRA	427	529	580
% of internal borrowing to CFR	29%	30%	25%
Ratio of financing costs to net revenue stream	1.0%	0.4%	0.3%
Ratio of financing costs to net revenue stream HRA	16.5%	16.1%	15.1%
Prudence			
Maturity structure of borrowing	See Appendix C		

In relation to % of internal borrowing to CFR, although no set % is advised in the Prudential Code, the guideline across the industry is between 25% and 35% and depends very much on each local authorities circumstances and approach. Wokingham will aim to work within the guidelines of 25% and 35%.

The ratio of financing costs to net revenue stream calculation does not include any surplus income generated from assets which the Council have borrowed for. Although a statutory indicator, it is important to consider all the income as highlighted in the table below on the net credit to the general fund.

- Annual Investment Strategy 2021/22 (Appendix C)

  This sets out the investment parameters that the Council treasury service will work within when making decisions. The CIPFA Code and MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

- Minimum Revenue Provision (MRP) policy (Appendix D)

  The policy in which the Council set aside a prudent revenue provision each year to repay historic capital spend also known as the capital financing requirement.

Net credit to general fund

The executive are asked to note and recommend to Council to note the cumulative financial impact on the Council of its borrowing activities equates to a net credit to the general fund for the taxpayer of £13.64 per band D equivalent at end of 2021/22 as shown in the table below. Over the medium term, these credits will increase as the housing, local economy and regeneration projects deliver more surplus income over and above financing costs.

	2021/22	2022/23	2023/24
Net Annual Credit £m	£1.0m	£3.9m	£4.7m
Divide by Council Tax Base (no. of band D equivalent properties)	73,297.1	74,030.1	74,770.4
Credit to general fund per band D property	**£13.64**	**£52.68**	**£62.86**

BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure that the Council has sufficient available cash to manage its day-to- day operations. By planning this daily cashflow the treasury service is able to invest short term surplus balances in suitable low-risk counterparties, which provide security of the investment and the appropriate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing requirement of the Council, essentially the longer- term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer- term cash may involve arranging long or short- term loans or using core balances. On occasion, debt previously drawn may be restructured to achieve a better financial position.

Details of the Council's capital spend plans are set out in the **Capital Strategy** document. As capital spend impacts on treasury management, key highlights from the capital strategy are included in the treasury management strategy (Appendix A) and summarised below;

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Roads and Transport	94.0	54.3	11.3	159.6
Housing, Local Economy & Regeneration	72.6	64.6	18.8	156.0
Climate Emergency	22.2	27.2	21.6	71.0
Environment	12.1	5.2	6.0	23.3
Internal Services	3.9	4.6	4.1	12.6
Children Services and Schools	3.4	3.1	5.4	11.9
Adult Social Care	7.2	2.9	1.0	11.1
Total Capital Programme 2021/22 to 2023/24	**215.4**	**161.9**	**68.2**	**445.5**

The capital programme proposed for the next three years is prudent and affordable as per the principles of the treasury management code of practice. The proposed funding of the programme is summarised below;

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Supported borrowing	(165.0)	(95.2)	(32.2)	(292.4)
Developer contributions (S106 / CIL)	(26.4)	(34.2)	(8.4)	(69.0)
Capital grants	(12.1)	(13.8)	(11.5)	(37.4)
Other contributions	(6.3)	(5.8)	(6.1)	(18.2)
General fund borrowing	(3.5)	(3.6)	(3.6)	(10.7)
Additional general fund borrowing*	0.0	(6.7)	(3.7)	(10.3)
Capital receipts	(2.2)	(2.6)	(2.7)	(7.5)
Total	**(215.4)**	**(161.9)**	**(68.2)**	**(445.5)**

* Additional general fund borrowing is currently the funding gap for years 2 and 3. Through the budget process, this will be to reduced to zero through using additional income (e.g. new grants or developer funding) and/or through reducing capital expenditure across the programme.

ANALYSIS OF ISSUES

Borrowing Position

An important part of the treasury management strategy is to highlight the level of borrowing need. This is known as the capital financing requirement (CFR) and is an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

The housing revenue account also has a CFR which is shown in Appendix A. This CFR is ringfenced and repaid through tenants rental income. This is estimated to be £83m for 2021/22.

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

A summary of the general fund CFR for the next three financial years is estimated below.

	Supported Borrowing			General Fund Borrowing		
	21/22	22/23	23/24	21/22	22/23	23/24
	£m	£m	£m	£m	£m	£m
Opening balance	310	415	513	110	114	120
Expenditure in year	159	118	61	8	10	8
Repayments in year	(54)	(20)	(20)	(4)	(4)	(4)
Closing balance	**415**	**513**	**554**	**114**	**120**	**124**

In the table above, it is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends. This ensures a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables.

It is important to note that the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The table below sets out the annual cost of serving this borrowing and the income generated through the assets which have been borrowed for. Over the next three years, the income generated from these assets will give **an increasing net credit to the general fund.**

	2021/22	2022/23	2023/24
	£m	£m	£m
General Fund – Minimum Revenue Provision Repayment (MRP) and Interest	8.3	8.2	8.3
Less contributions towards financing costs (MRP repayment + Interest) from following areas:			
- Treasury investments	(1.4)	(1.1)	(1.2)
- Housing, Local Economy and Regeneration	(4.8)	(6.4)	(6.5)
Net Annual Financing Cost (MRP repayment + Interest)	2.1	0.7	0.6
Include additional income over and above the contributions shown above:			
- Commercial investments	(2.2)	(3.5)	(3.8)
- Town centre regeneration	(0.9)	(1.1)	(1.5)
Net annual **credit** to the general fund	**(1.0)**	**(3.9)**	**(4.7)**

Net annual credit £m	£1.0m	£3.9m	£4.7m
Divide by Council Tax Base (no. of band D equivalent properties)	73,297.1	74,030.1	74,770.4
Credit to general fund per band D property	**£13.64**	**£52.68**	**£62.86**

Repayment Of Borrowing

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt aswell as the asset value generated.

The graph includes three key lines in reference to debt;

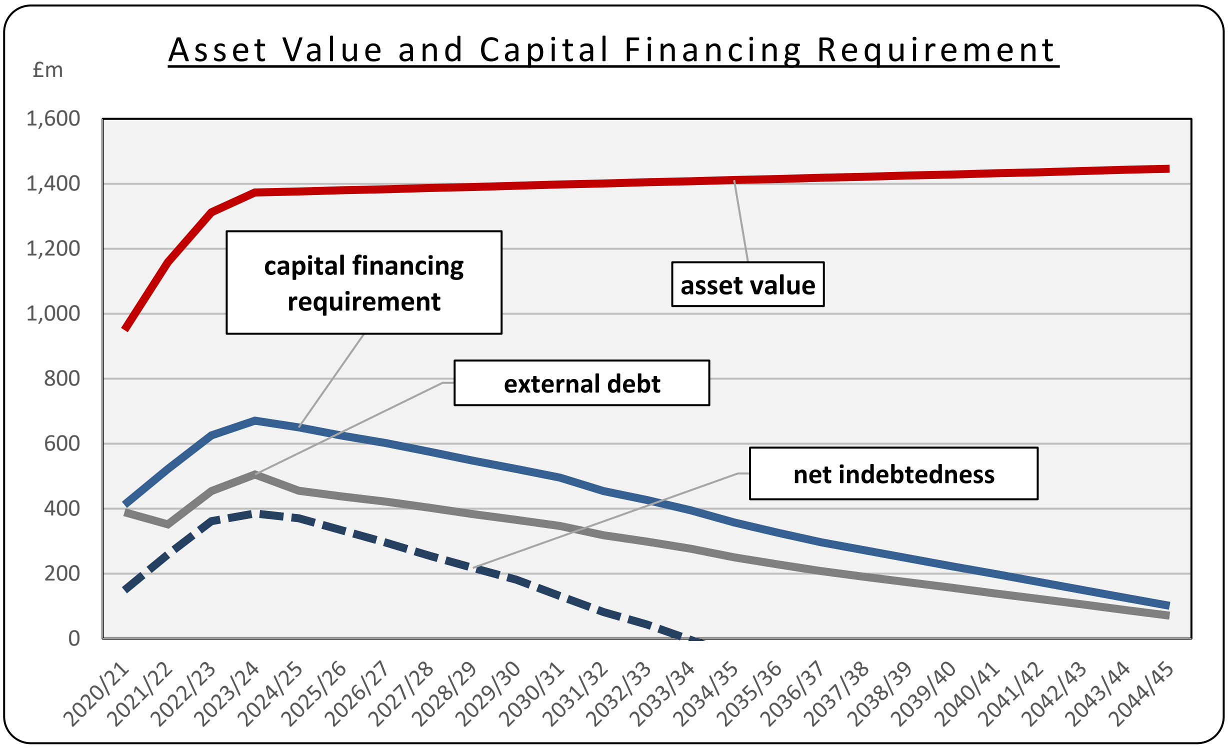
- Capital financing requirement (CFR) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.

- External debt – this is the actual amount borrowed with third parties. The difference between CFR and external debt is referred to as internal borrowing.
- Net indebtedness – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid and the ongoing income will be transferred to benefit the general fund.

The graph is based on general fund only and excludes HRA as this is ringfenced. The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.



The asset value used in the graph above are calculated using the total asset value from the Council's balance sheet, and an estimate of capital expenditure over the next three years. This new methodology is different to the asset value calculation used last year whereby only the asset values from new borrowing was included. This new methodology is more accurate and reflects all asset values that either have been or will be funded from an element of borrowing.

The above graph is summarised in the table below. After the first three years, the expectation is that the CFR, external debt and net indebtedness will start to reduce as repayments of borrowing start to increase, capital receipts and developer funding are received.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
CFR (a)	529	633	678	650	625
Less internally funded (b)	171	171	166	169	171
External debt – general fund only (c= a+b)	358	462	512	481	454
Less treasury investments (d)	93	93	120	111	120
Net indebtedness (e = c - d)	**265**	**369**	**392**	**370**	**334**

Key Changes to the Strategy

The Council is recommending changes to the investment strategy as explained on page 5 of Appendix A. The changes are designed to enhance the options available to the treasury team for daily management of cash funds, short term investing and borrowing.

These include:

- The option to be able to open a deposit account, with our transactional bank provider which will increase capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.

- To increase the money market (liquid funds) limit from £5m to £10m which will increase capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.

- The option to issue a local authority bond to raise borrowing as an alternative to traditional markets such as PWLB.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION
The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	• N/A	Yes	Revenue
Next Financial Year (Year 2)	• Credit to general fund equal to band D property - £13.64	Yes	Revenue
Following Financial Year (Year 3)	• Credit to general fund equal to band D property - £52.68	Yes	Revenue

Other Financial Information
Capital spend plans are outlined in further detail in the Capital Strategy which is available within the agenda pack for the 18 February 2021 Executive meeting and will be available on the Council’s website once approved.

Stakeholder Considerations and Consultation
None

Public Sector Equality Duty
An Equality Impact Assessment is not required for this report

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
None

List of Background Papers
Appendix A - Treasury Management Strategy Appendix B - Prudential & Treasury Management Indicators 2021/22 to 2023/24 Appendix C - Annual Investment Strategy Appendix D - MRP policy

Contact Mark Thompson	**Service** Business Services
Telephone Tel: 0118 974 6555	**Email** mark.thompson@wokingham.gov.uk

This page is intentionally left blank